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STATE OF MONTANA
DEPARTMENT OF ADMINISTRATION
TREASURY DIVISION

AUDITED FINANCIAL STATEMENTS
With Supplemental Material

June 30, 1981



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STATE OF MONTANA
DEPARTMENT OF ADMINISTRATION
TREASURY DIVISION

AUDITED FINANCIAL STATEMENTS
With Supplemental Material

June 30, 1981

Office of the Legislative Auditor



STATE CAPITOL
HELENA, MONTANA 59620
406/449-3122

JAMES H. GILLETT, C.P.A.
ACTING LEGISLATIVE AUDITOR

October 1981

JOHN W. NORTHEY
STAFF LEGAL COUNSEL

The Legislative Audit Committee
of the Montana State Legislature:

Transmitted herewith is the report on the audit of the Treasury
Division, Department of Administration for the year ended June 30,
1981.

The audit was conducted by Junkermier, Clark, Campanella, and
Stevens, P.C., CPA's under a contract between the firm and our
office. The comments and recommendations contained in this report
represent the views of the firm and not necessarily the Legislative
Auditor.

The agency's written response to the report recommendations is
included in the back of the audit report.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "James Gillett", with a long horizontal flourish extending to the right.

James Gillett, CPA
Acting Legislative Auditor



STATE OF MONTANA
DEPARTMENT OF ADMINISTRATION
TREASURY DIVISION
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STATE OF MONTANA
DEPARTMENT OF ADMINISTRATION
TREASURY DIVISION

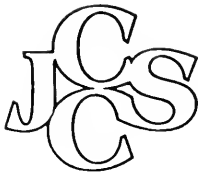
SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full reply of the Department of Administration is included in the back of this report.

RECOMMENDATION:

The Department of Administration determine the feasibility of removing the Employment Security Division accounts from the Treasury Division's Statement of Cash Position or that administrative control be turned over to the Treasury Division.

Agency Reply: Concur.



Junkermier · Clark · Campanella · Stevens PC
Certified Public Accountants

1300 Cedar Street • Helena, MT. 59601 • 406-442-6901

The Legislative Audit Committee of
the Montana State Legislature

We have examined the Statement of Cash Position, the Treasurer's Cash Accountability Account of the Treasury Division of the Department of Administration, and the Schedule of Long-Range Building and General Obligation Highway Bonds, as of June 30, 1981. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as indicated in the following paragraphs. We did not audit the Employment Security Division bank balances as these accounts are outside the state treasury system and per the audit contract they are excluded from the scope of this audit. Total cash in these accounts was \$20,095,990 at June 30, 1981. We also did not test the balances presented for investments. These investments were examined by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to those investments, is based solely upon the report of the other auditors.

The Statement of Cash Position, Treasurer's Cash Accountability Account is not accompanied by statements of revenues and expenditures or a statement of changes in fund balance, since it reports only specific resources and the accountability for those resources at June 30, 1981. Revenue, expense and changes in fund balances are reported in the statements of the state agencies which collected the revenue or authorize the expenditure.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been required to audit the Employment Security Division bank balances, the Statement of Cash Position, Treasurer's Cash Accountability Account, and the Schedule of Long-Range Building and General Obligation Highway Bonds, presents fairly the resources, balances, and accountability which they purport to present at June 30, 1981.

Junkermier, Clark, Campanella, Stevens, P.C.

Helena, Montana
October 2, 1981

STATE OF MONTANA
DEPARTMENT OF ADMINISTRATION
TREASURY DIVISION
STATEMENT OF CASH POSITION
June 30, 1981

RESOURCES

CASH

Cash on hand	\$ 12,000
Cash in Employment Security Division demand accounts	979,291
Cash in Employment Security Division U.S. Treasury account	19,116,700
Cash in other demand accounts	<u>12,221,288</u>

\$ 32,329,279

INVESTMENTS

STIP Units at cost	136,405,292
Other investments at cost	111,023,541
Purchased interest	<u>74,417</u>

247,503,250

OTHER RESOURCES

Cash advanced to banks for purchasing Bonds
and Bond Coupons

1,438,127

Total Resources

\$281,270,656

ACCOUNTABILITY

ACCOUNTABILITY

Accountability for cash in treasury	\$264,722,711
Accountability for outstanding warrants	<u>16,547,945</u>

Total Accountability

\$281,270,656

See the accompanying accountants' report and the notes to the financial statements.

STATE OF MONTANA
DEPARTMENT OF ADMINISTRATION
TREASURY DIVISION
SCHEDULE OF LONG-RANGE BUILDING AND GENERAL OBLIGATION HIGHWAY BONDS
June 30, 1981

LONG-RANGE BUILDING BONDS

Series 1	\$ 4,715,000
Series 2	7,160,000
Series 6	18,930,000
Montana College of Mineral Science	<u>2,175,000</u>

Total Long-Range Building Bonds	<u>\$ 32,980,000</u>
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GENERAL OBLIGATION HIGHWAY BONDS

General Obligation Highway Bonds	<u>\$ 6,240,000</u>
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See the accompanying accountants' report and the notes to the financial statements.

STATE OF MONTANA
DEPARTMENT OF ADMINISTRATION
TREASURY DIVISION
NOTES TO FINANCIAL STATEMENTS
June 30, 1981

1. GENERAL

Article VII, Section 1, Constitution of the State of Montana, 1889, created the Office of the State Treasurer as a constitutional office under the executive branch of government of the state of Montana. The 1972 Montana Constitution deleted the Office of the State Treasurer as a constitutionally created office.

Effective July 1, 1977, and pursuant to Section 82A-214, R.C.M. 1947, the Office of the State Treasurer was abolished and all functions and duties of the State Treasurer as prescribed by law were transferred to the director of the Department of Administration who serves as "ex officio" State Treasurer. The State Treasurer's Office became the Treasury Division of the Department of Administration on July 1, 1977.

The duties of the Treasury Division shall be to:

- (a) receive and account for all moneys belonging to the state not expressly required by law to be received and kept by some other person;
- (b) pay warrants out of the funds upon which they are drawn;
- (c) upon payment of any warrant, taken upon the back thereof the receipt of the person to whom it is paid;
- (d) keep an account of all moneys received and disbursed;
- (e) at the request of either house of the legislature or of any committee thereof, give information in writing as to the condition of the treasury or upon any subject relating to the duties of his office;
- (f) discharge such other duties as may be imposed upon him by law.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statements Presented - The Treasury Division's only financial statement is the Statement of Cash Position as the Division reports on specific resources and the accountability for those resources. Revenue, expense and changes in fund balance are reported in the statements of the state agencies which collect the revenue or authorize the expenditure.

3. CASH ADVANCED TO BANKS FOR PURCHASING BONDS AND BOND COUPONS

This account represents cash advanced to fiscal agents for bond and bond coupon redemption. The money required at each date of a bond or bond coupon redemption is transferred to the fiscal agent just prior to such date. The fiscal agent redeems the bonds or the coupons and returns the paid cancelled bonds and coupons to the Treasury Division.

STATE OF MONTANA
DEPARTMENT OF ADMINISTRATION
TREASURY DIVISION
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 1981

4. ACCOUNTABILITY FOR OUTSTANDING WARRANTS

This account represents outstanding warrants issued by the State Auditor and the Worker's Compensation Division which have not been presented for payment to the Treasury Division as of June 30, 1981.

STATE OF MONTANA
DEPARTMENT OF ADMINISTRATION
TREASURY DIVISION
APPOINTIVE AND ADMINISTRATIVE OFFICIALS

Morris L. Brusett	Director of the Department of Administration and "Ex officio" State Treasurer.
Vera S. Freseman	Administrator, Treasury Division.

STATE OF MONTANA
DEPARTMENT OF ADMINISTRATION
TREASURY DIVISION
REPORT ON INTERNAL CONTROL AND COMMENTS

We have examined the Statement of Cash Position, Treasurer's Cash Accountability, Account of the Treasury Division of the Department of Administration and the Schedule of Long Range Building Bonds and General Obligation Highway Bonds for the fiscal year ended June 30, 1981, and have issued our report thereon dated October 2, 1981. As a part of our examination, we made a study and evaluation of the system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. Under these standards, the purpose of such evaluations are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing, and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements and to assist the auditor in planning and performing his examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgements by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgement, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to the execution and recording of transactions or with respect to the estimates and judgements required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our examination of the financial statements, made in accordance with generally accepted auditing standards, including the study and evaluation of the Division's system of internal accounting control for the year ended June 30, 1981, that was made for the purpose set forth in the first paragraph of this report, would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data. However, such study and evaluation disclosed the following condition that we believe to be a material weakness.

Employment Security Division Accounts

The Treasury Division's cash in demand account subsidiary ledger at June 30, 1981, included two Department of Labor and Industry, and Employment Security Division accounts totalling \$20,095,991. The Treasury Division neither reconciles nor controls these accounts. It has been recommended in previous audit reports that these

STATE OF MONTANA
DEPARTMENT OF ADMINISTRATION
TREASURY DIVISION
REPORT ON INTERNAL CONTROL AND COMMENTS (Continued)

Employment Security Division accounts be removed from the Treasury Division's Statement of Cash Position or that control of all existing Employment Security Division accounts be turned over to the Treasury Division.

RECOMMENDATION:

We recommend that the Department of Administration determine whether or not it is practical or possible within the Statewide Budget & Accounting System to remove the Employment Security Division accounts from the Treasury Division's Statement of Cash Position. If such removal is not possible then the Department of Administration should determine the feasibility of attempting to arrange for the transfer of control of the Employment Security Division bank accounts to the Treasury Division.

As a part of this audit we have been requested to review the current status of recommendations made in previous audit reports. Of the recommendations made in previous years all but two are no longer appropriate or have been successfully implemented. These recommendations and their current status are reiterated below.

Refunding of Contractors' Securities

The fiscal year 1980 audit report recommended that the Treasury Division refund three contractors' security deposits which had been held in trust for at least five years. Two of these three deposits have been refunded. The third deposit is being held as the contractor and the State of Montana are involved in litigation.

County Collection Reports

It has been recommended in previous audit reports that interest be charged on county treasurer reports which are not submitted by the 20th day of each month. During our audit, we did not note any interest received from late reports. Nor did we locate any such late reports in our testing. Per discussion with the Division's administrator, a new policy has been adopted concerning late reports; interest shall be charged on late reports if an acceptable excuse is not provided by the submittor.

We wish to thank the Administrator of the Treasury Division and the Director of the Department of Administration and their staff for the excellent cooperation and assistance received during our audit.

Junkermier, Clark, Campanella, Stevens, P.C.

JUNKERMIER, CLARK, CAMPANELLA, STEVENS, P.C.
Certified Public Accountants

DEPARTMENT OF ADMINISTRATION

DIRECTOR'S OFFICE



TED SCHWINDEN GOVERNOR

MITCHELL BUILDING

STATE OF MONTANA

(406) 449-2032

HELENA, MONTANA 59620

October 30, 1981

Junkermier, Clark, Campanella, Stevens, PC
Certified Public Accountants
1300 Cedar Street
Helena, MT 59601

Dear Mr. Stipcich:

In accordance with your request, we submit the following response to the recommendation included in the audit of the Treasury Division:

Recommendation

We strongly recommend, as has previously been done, that either the Employment Security Division accounts be removed from the Treasury Division's Statement of Cash Position or that control be turned over to the Treasury Division.

Department Response

It is the Department's intention to review the choice of actions recommended as soon as possible to determine if a change in procedure is necessary for proper control of the state's cash position.

Sincerely,

A handwritten signature in cursive script, reading "Morris L. Bruset", is written over the typed name.

MORRIS L. BRUSETT
Director

